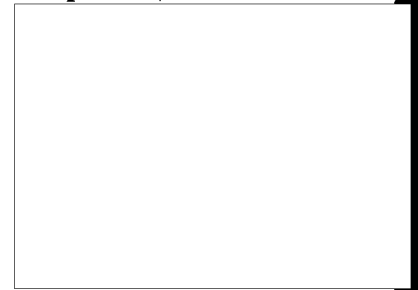




**Director of  
Central  
Intelligence**



# **National Intelligence Daily**

***Monday  
26 March 1979***

**Top Secret**

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Top Secret

## Contents

### Briefs and Comments

	Israel: <i>New West Bank Settlements</i> . . . . .	1
	Afghanistan: <i>Rebel Activity and Soviet Reaction</i> . . . . .	2
25X1	Uganda-Tanzania: <i>Military Situation</i> . . . . .	3
	<div style="border: 1px solid black; height: 50px; width: 100%;"></div>	
25X6	<div style="border: 1px solid black; height: 20px; width: 100%;"></div>	
	China: <i>Political Drive Against Taiwan</i> . . . . .	8
	USSR: <i>Hard Currency Debt</i> . . . . .	9
	USSR: <i>Pipeline Problems</i> . . . . .	10
25X6	USSR-Syria: <i>Gromyko Visit</i> . . . . .	11
	<div style="border: 1px solid black; height: 20px; width: 100%;"></div>	
	Guatemala: <i>Assassination</i> . . . . .	12
	EC: <i>Agricultural Negotiations</i> . . . . .	12

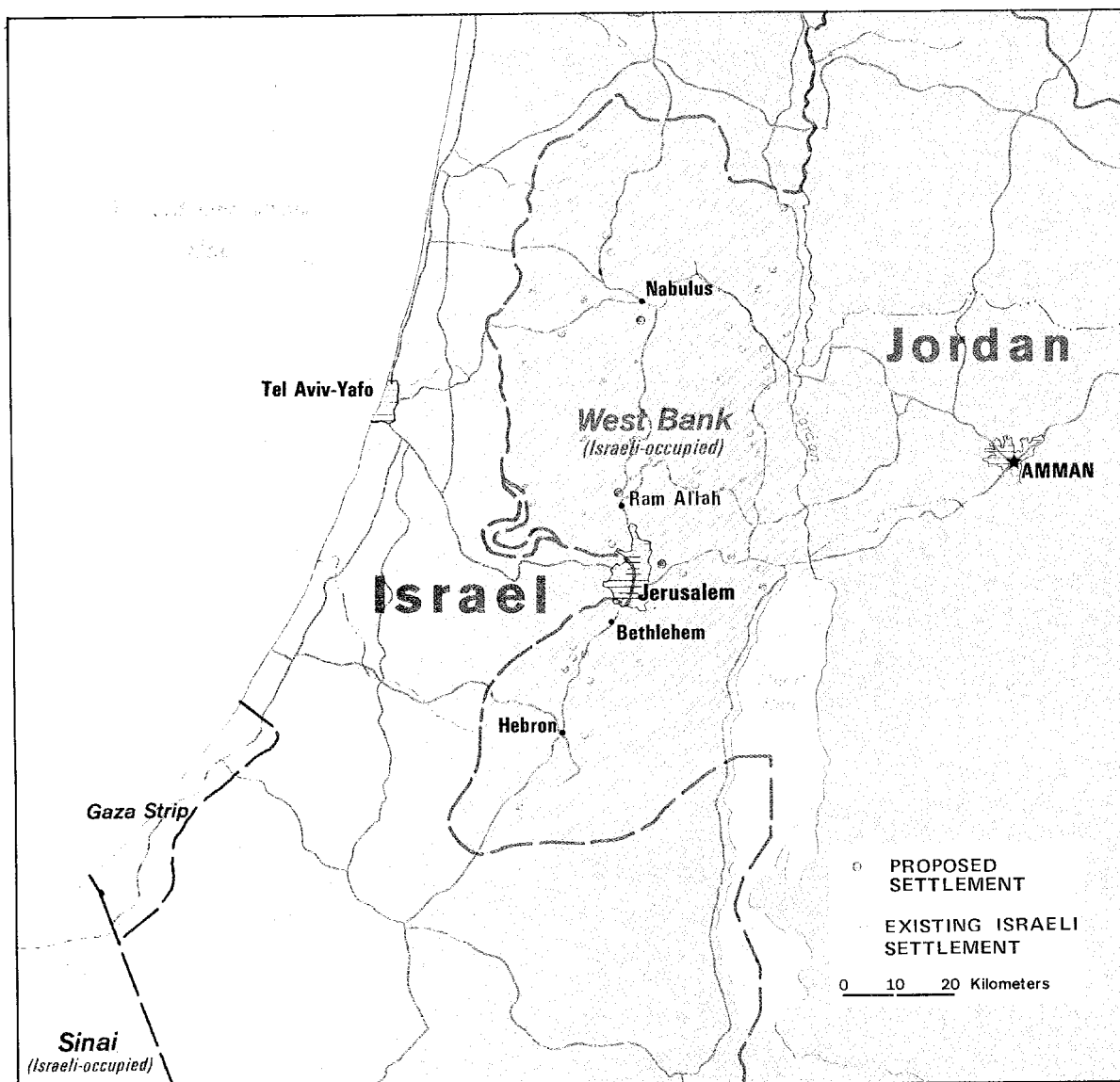
### Special Analyses

	North Yemen - South Yemen: <i>Prospects for More Turmoil</i> . . . . .	13
	Argentina: <i>Government Strengthened, but Beset by Problems</i> . . . . .	17
	Overnight Reports . . . . .	20

The Overnight Reports, printed on yellow paper as the final section of the *Daily*, will often contain materials that update the Situation Reports and Briefs and Comments.

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Top Secret



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Top Secret

BRIEFS AND COMMENTS

ISRAEL: New West Bank Settlements

*Israel reportedly is preparing to establish new settlements soon in heavily Arab-populated sectors of the northern West Bank. Coalition hardliners want to create as many "facts" as possible before the beginning of West Bank-Gaza Strip autonomy negotiations on the assumption that Prime Minister Begin will then be subjected to intense pressure to suspend new settlement activity.* [ ]

Begin probably promised key hardliners, including those in the National Religious Party, his indispensable coalition ally, to go ahead immediately with the new settlements in order to gain their support for cabinet and Knesset ratification of the peace treaty with Egypt. He also wants to retain the hardliners' backing for the coming negotiations for a Palestinian self-governing authority. [ ]

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The Prime Minister may hope renewed settlement activity will demonstrate to Egypt and the US that his government is determined not to be hindered by the peace treaty and the upcoming autonomy negotiations from pursuing what it regards as legitimate rights to settle the West Bank. Begin wants to reassure important hawkish elements in Israel that the treaty and the West Bank - Gaza negotiations will not lead to a weakening of Israel's hold over the West Bank. He hopes also to discourage leading West Bank - Gaza political moderates from seriously considering participation in the autonomy negotiations. [ ]

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Two sites, one north of Ram Allah and the other east of Jerusalem, reportedly already have been approved by the ministerial security committee and apparently can be established whenever Begin desires. A number of other sites also are being discussed, including one just south of Nablus, the largest Arab town on the West Bank. The US Embassy in Tel Aviv believes that the Begin government may decide to establish its first settlement there after the peace treaty with Egypt as a gesture to the radical Gush Emunim organization. [ ]

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**Approximate Areas of Fighting and Unrest**



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AFGHANISTAN: Rebel Activity and Soviet Reaction

*Although the government has regained complete control of Herat, it still faces serious insurgency there and elsewhere in the country.*

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Along the Pakistani border, the rebels claim to have taken Asadabad, capital of remote Konar Province. The city, which has been under intermittent siege for several months, is of little military or economic importance, but its fall would further damage Army morale.

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Casualties have been heavy, and the provincial capital of Gardez, the object of the rebel campaign, is heavily defended. The exiles are seeking help from Pakistani tribesmen and Afghan refugees in Pakistan.

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of a motorized rifle regiment and a tank regiment of Termez being activated but still in garrison. Yesterday at Kushka a convoy of 30 trucks was leaving an army barracks and moving toward the border, and a motor transport unit, a chemical defense battalion, and an air defense battery were seen within 4 kilometers of the border.

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a high level of personnel and truck activity at two Soviet airborne regimental areas in the Turkestan Military District. We do not know whether this activity is in reaction to the situation in Afghanistan or is part of the extensive Soviet military exercise in the Far East.

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UGANDA-TANZANIA: Military Situation

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*Kampala radio announced yesterday that Entebbe airport had been shut down, Ugandan airspace closed to all air traffic, and a curfew imposed in Kampala. These measures apparently were adopted by the Defense Council that is normally chaired by President Amin.*

An unidentified member of the Ugandan cabinet told a Western diplomat in Nairobi on Saturday that "all of Uganda's military commanders" had resolved to force Amin to step down "for the good of the country." He said the commanders had been unable to locate Amin on Friday or Saturday, but were determined to force a showdown yesterday. The group reportedly planned to form a provisional government under Defense Minister Mondo that would try to arrange a truce with the Tanzanians. Since the military commanders comprise the Defense Council, either they compromised with Amin during yesterday's meeting or delayed their alleged coup plans.

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CHINA: Political Drive Against Taiwan

*China has intensified its "united front" campaign against Taiwan and has forced the government there to go on the defensive. The move is part of China's attempt to capitalize on the increased sense of political isolation in Taipei since the normalization of US-China relations.*

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The campaign was outlined last month in a New Year's appeal to Taiwan for reconciliation. The message called for negotiations to end the military confrontation in the Taiwan Strait, the establishment of postal and telecommunications connections and trade ties, and the facilitation of travel between Taiwan and the mainland. It also pledged to respect the economic and social status quo on the island. To back up its appeal, China unilaterally ended its propaganda leaflet shelling of the Taiwan-held offshore islands, permitted telephone and telegraph services to Taiwan, and allowed the use of passports bearing Taiwan's visas.

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Taiwan, however, has rejected all these proposals and at this stage has been made to appear intransigent. Over the past year--beginning before Sino-US normalization--Taiwan has made a few minor concessions on nonofficial contacts between individuals on Taiwan and the mainland but is unlikely soon to go further.

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Contacts with China too soon might raise questions about Taipei's resolve to maintain its claim to sovereignty and raise doubts about its economic future. Moreover, the mainlander-dominated Kuomintang probably is aware that ethnic Taiwanese politicians and businessmen fear that the mainlanders might attempt to secure their future political domination by arriving at a modus vivendi with China. Such a decision could dash Taiwanese hopes for a slice of national political power and cause a reaction among those, and there are probably many, who believe that in the long run Taiwan should be an independent nation.

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USSR: Hard Currency Debt

[redacted]  
[redacted] we have reduced our estimates of the USSR's net hard currency debt from \$16 billion to \$11 billion. [redacted]

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The revised estimates do not change our perception of the USSR's financial position. Most of the reduction stems from a revised treatment of CEMA Bank liabilities, which are now excluded from the Soviet debt. General concern over Soviet borrowing in 1975 and 1976 stemmed more from the rate and manner in which the Soviets increased their debt than from the absolute level. Over the past two years, the USSR has substantially improved its payments position; the current account has been brought into surplus by stepped-up oil exports, a slowing of import expansion, and large sales of arms and gold. The USSR markedly improved its credit rating with Western bankers as the growth of its hard currency debt slowed, especially the portion depending on commercial bank financing. [redacted]

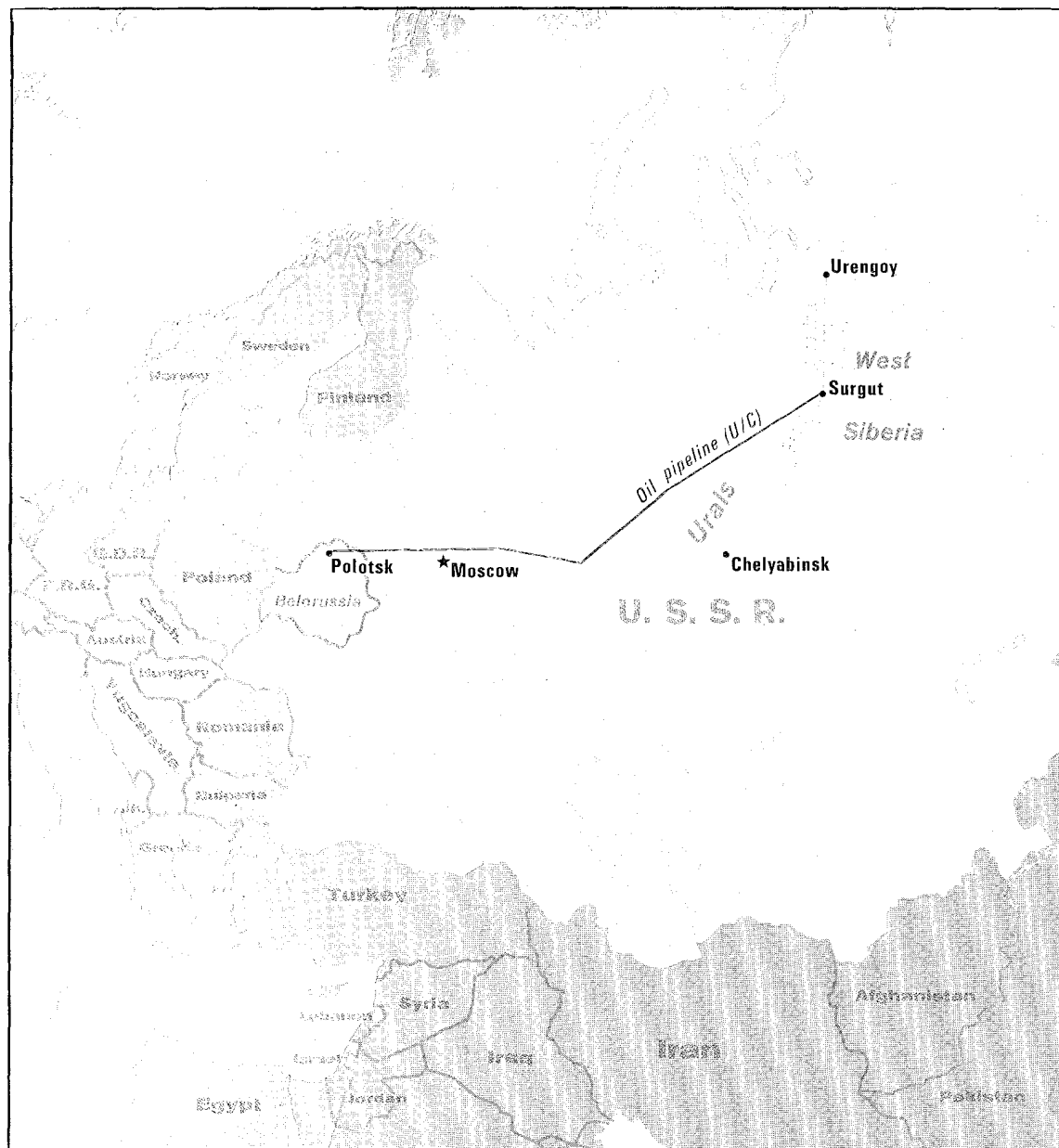
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The Soviets should be able to handle this debt through 1980 without threatening priority imports. Thanks to the conservative financial policy of the past two years, which included substantial Eurodollar loan prepayments and refinancing, debt service should require a lesser portion of hard currency revenues. Soviet financial assets in the West stand at an alltime high. Furthermore, the Soviets have ample borrowing capacity for the near term. At the end of 1978, Western governments had committed nearly \$10 billion to finance future exports to the USSR, and another \$4 billion was available through unused general lines of credit from commercial banks. [redacted]

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USSR: Pipeline Problems

*Premier Kosygin earlier this month established a special commission to resolve equipment supply problems impeding the construction of two major pipelines in West Siberia. Oil and gas pipeline construction--especially in West Siberia--is becoming a major bottleneck for Soviet energy planners*

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*Construction in the first three years of the plan is already about 5,000 kilometers or 15 percent behind schedule.*

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The two Siberian pipelines include an oil line from Surgut to Polotsk in Belorussia and a gas line between Urgengoy and Chelyabinsk in the Urals. Construction of the 3,300-kilometer oil pipeline, which will be one of the longest in the world, is proceeding slowly. Work on it was halted completely for 10 days in January due to winter storms. In contrast, the 1,600-kilometer Urgengoy-Chelyabinsk gas pipeline was laid in a record 12 months, but most of the compressor stations are yet to be installed, and a second and third line are to be laid on this route by next year.

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Kosygin's commission will be directly accountable to the Politburo and will be headed by a deputy chairman for fuel and energy affairs within the Council of Ministers. Local party and government officials have been ordered to ensure that necessary equipment and supplies are delivered to construction sites with a minimum of red tape.

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USSR-SYRIA: Gromyko Visit

Soviet Foreign Minister Gromyko arrived in Damascus on Saturday for a previously unannounced three-day visit. His visit is probably intended to exploit Syrian opposition to the Egyptian-Israeli treaty and to improve bilateral relations, which have been under a strain in recent months. So far, Gromyko has conferred twice with Syrian President Assad and with Palestine Liberation Organization leader Arafat and Syrian Communist Party officials.

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GUATEMALA: Assassination

The assassination last week in Guatemala of prominent leftist politician Manuel Colom Argueta typifies the rising political violence under President Lucas' eight-month-old administration. Colom became a credible threat to the ruling military-dominated coalition when the government recently registered his party; its registration had been denied for years. Many Guatemalans will read his murder as further substantiation of rumors that the government is behind the activities of the Secret Anti-communist Army (ESA), a vigilante group that targeted many leftists for elimination last year. Lucas is increasingly viewed as incompetent and unless he can take some effective action on the terrorist problem, radicals on both the left and right will be further encouraged to use violence for their own ends.

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EC: Agricultural Negotiations

The EC agriculture ministers begin an intensive effort today to resolve their differences over the Common Agricultural Policy. Among other issues, they will consider a controversial EC Commission proposal for a general freeze on farm support prices. The freeze is staunchly supported by the British, who have been insisting on agricultural reform as a way of reducing Britain's net contribution to the EC budget. If the ministers fail to agree this week, their agreement in principle on other agricultural issues--which allowed the new European monetary system to start two weeks ago--might fall apart. Tensions flowing from the UK and Italian Government difficulties and from the coming direct elections to the European Parliament would add to the crisis atmosphere, possibly making EC approval of the Multilateral Trade Negotiations accords, scheduled for next week, more difficult.

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SPECIAL ANALYSES

NORTH YEMEN - SOUTH YEMEN: Prospects for More Turmoil

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North and South Yemen late last week apparently completed the troop withdrawals called for by the Arab League, and the Presidents of both countries appear to be still going ahead with plans to meet soon to work out further reconciliation efforts. Despite the apparent success of the Arab League mediation effort, the prospects are high for further unrest--which could have a destabilizing effect on North Yemeni President Salih's regime. We have not noted any significant increase in foreign aid to South Yemen since the fighting ended, but the South Yemenis could probably count on Soviet and Cuban support in the event of renewed fighting.

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Photographic coverage of the border area confirms that the South Yemenis have withdrawn their regular units from the three main locations inside North Yemen where fighting occurred recently. They have set up rocket launchers and artillery in defensive positions near the border, however, and may have reinforced the three brigades on the South Yemeni side with additional armor.

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the dissident National Democratic Front--armed and supplied by Aden--remains in place inside North Yemen

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Renewed fighting would strain North Yemen's military capabilities and could further erode Salih's damaged authority.

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[REDACTED]

South Yemen's leadership is, in fact, making no secret of this continuing support. In a recent interview, Presidium Chairman Ismail said that his government would continue to back the Front's "legitimate and logical" demands. [REDACTED]

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A resumption of even low-level insurgency could badly strain North Yemen's military capabilities. Its Army, weakened by recent fighting, would have difficulty coping with renewed guerrilla attacks by the Front. [REDACTED]

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[REDACTED]

[REDACTED] The large amounts of Saudi, Jordanian, and US equipment that have arrived or are scheduled to arrive shortly will no doubt improve the Army's capabilities but it could be some time before the impact of this aid is felt. [REDACTED]

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There are no indications that South Yemen has received additional arms from its Communist suppliers since the fighting began last month, nor is there any firm evidence that the Soviets have increased their advisory staff. [REDACTED]

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Political Situation in North Yemen

Salih moved last week to bolster his political standing by shuffling his cabinet, reorganizing the military hierarchy, and removing some regional officials. We suspect these shifts were intended primarily to put the blame for setbacks during the recent fighting on the ousted officials. It is too early to tell if the tactic will succeed. [redacted]

Soviet and Cuban Intentions

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We doubt that Moscow would want a closer relationship with Sana now for fear of endangering its close ties with Aden. Moscow would like to exploit the Aden government's Marxist orientation in order to get a friendship treaty with the regime and solidify cooperation in the pursuit of wider regional goals. A closer political relationship would in turn provide the Soviets with leverage for obtaining additional military facilities in South Yemen. To achieve these goals, the Soviets would probably provide limited assistance to another South Yemeni effort to topple the North Yemeni regime. The Soviets have never indicated that they had any problem in principle with that objective, although the timing of the recent invasion may have conflicted with their current flirtation with Saudi Arabia. [redacted]

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When and if another major military thrust is decided upon, Cuban advisers could be expected to provide, if needed, rear echelon military support and tactical guidance to South Yemeni forces [REDACTED]

[REDACTED] We believe, however, that Havana--sensitive to its image among members of the nonaligned movement and fearful of provoking a US counterresponse--would not allow troops, or probably even advisers, to take part in combat much beyond the border area. [REDACTED]

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ARGENTINA: Government Strengthened, but Beset by Problems

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*The government headed by President Videla and a three-man military junta has been strengthened by recent high-level Army command changes and by the Vatican's agreement in late January to mediate the Beagle Channel dispute with Chile. Even so, uncertainty over the outcome of the mediation effort, as well as unchecked inflation--which may provoke labor unrest--could create serious stresses within the government in the next few months.*

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In December, when Argentina and Chile seemed close to hostilities over the Beagle Channel, Videla's handling of the situation set off a spate of coup rumors. Since then, Army Commander Viola has neutralized some of the government harshest critics in the armed forces. First Corps Commander General Suarez Mason, an outspoken critic of the government, was named Army chief of staff--thus depriving him of a sensitive field command and placing him under the close scrutiny of General Viola. Two of the four corps commanders are now considered Videla-Viola loyalists. Another critic, Major General Santiago Omar Rivero, was reassigned to the Inter-American Defense Board. Further appointments have tightened Viola's control of key operational units.

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Although the changes strengthen Viola's hand as well as Videla's, the Army Commander is not a rival for power. [redacted] his intention to retire from public life at the end of this year and in recent months has been the President's strongest supporter. This was particularly true in December when Suarez Mason, Third Corps Commander Menendez, and other "hawks" became increasingly impatient with Videla's efforts to seek a negotiated settlement and strongly favored a military solution.

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For the time being, at least, Videla's approach has been vindicated. It averted war with a usually friendly neighbor that could have poisoned bilateral relations for

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generations. On the other hand, the mediation process, which will probably begin formally next month in Rome, is likely to be protracted, and a breakdown in the talks or an unsatisfactory outcome for the Argentines could pose dangers for Videla. [ ]

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In an apparent effort to disarm his opponents, Videla has attempted to put the best face on the mediation. Government officials have apparently led military officers to believe that the Papal good offices have overcome Chilean intransigence and that Argentina's territorial aspirations will be respected. They also have averred that Chile is prepared to renegotiate the World Court's arbitral award of the three Beagle Channel islands; this seems most unlikely because Chile has shown little tractability on any territorial issue. [ ]

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A compromise of some sort is the only realistic solution, but it would be likely to fall far short of the Argentine Government's inflated assurances. Should the mediation results be unacceptable to the military, or should the talks break down, Videla will come under severe criticism for not having taken military action in December. His failure to order the seizure of some of the disputed islands could still ultimately cost him his job. [ ]

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Another and perhaps more immediate problem for Videla is the economy. For the past three years, Argentina has had the world's highest rate of inflation--170 percent in 1978 and 21.2 percent for the first two months of this year. The depressed level of real wages has made organized labor increasingly restive. Low consumer demand and concern that tariff reductions enacted earlier this year will disrupt Argentina's industrial growth and cause unemployment are prompting some business leaders to cooperate with labor in an attempt to force changes in economic policies. Some military officers may be encouraging these efforts. [ ]

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Videla's continued support of controversial Economy Minister Martinez de Hoz could trigger a general strike in the next month or so. General Viola is confident that

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the government can contain any labor unrest, but strong repressive measures against union activists will worsen Argentina's reputation as one of the foremost violators of human rights in South America and further mobilize world opinion against the government. [ ]

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Although Videla seems inclined to grant Martinez de Hoz more time to rein in inflation, the combined pressure of labor and industry could force the Economy Minister's resignation in the next few months. Such a change could well do more harm than good because the absence of any well thought out alternative to present policies would exacerbate economic uncertainty and probably further retard recovery. [ ]

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A new trade union law now in preparation may help the government ride out the storm. The law, which may be promulgated within 90 days, could add a further measure of stability by granting greater trade union freedom and promoting collective bargaining. [ ]

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#### OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

#### Italy

Deputy Prime Minister Ugo La Malfa, the influential leader of the small Republican Party, died today at age 75, following a severe stroke early Saturday. La Malfa was a distinguished elder statesman of Italian politics, and the Embassy reports his death will not affect the likely short survival of the new three-party government. Prime Minister Andreotti reportedly will not select a new deputy prime minister or give a single individual La Malfa's responsibility for the overall supervision of economic affairs.

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#### Saudi Arabia

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[redacted] the mood in Saudi Arabia on the eve of today's OPEC meeting in Geneva is one of uncertainty. Saudi leaders are preoccupied with the impact of the Egyptian-Israeli peace treaty on Saudi-US relations, realize they have little influence on the other OPEC states given the currently tight market conditions, and face a growing internal debate over production and revenue needs.

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Egypt-Japan

According to a Western wire service report, Foreign Ministry sources in Tokyo said today that Egyptian President Sadat will visit Japan in July. Sadat has stated that he hopes to visit there and West Germany in seeking a new, international "Marshall Plan" to assist his country. [redacted]

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Somalia

The nation's official news agency announced yesterday that the ruling party of President Siad Barre has granted an amnesty "to all Somalis who left their country on political grounds or otherwise," adding that returnees "will not be persecuted" for any crimes they had committed. The US Embassy comments that the amnesty may have been timed to enhance Siad's image at the meeting of the Arab League Council that began Saturday in Mogadiscio. The Embassy expects most Somalis abroad to react with skepticism to the amnesty declaration. [redacted]

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Spain

The US Embassy in Madrid reports that the issue of Basque autonomy is again at the top of the Spanish political agenda for the upcoming parliamentary session. The Suarez government wants to address each aspect of the issue separately, but the increasingly militant Basques are said to be pressing for quick action on a Basque draft autonomy statute submitted to the lower house of the Spanish Parliament in late December. The Embassy comments that Suarez cannot address the issue in a vacuum; the decision will affect Catalan regionalism and sprouting autonomist sentiment particularly in Andalusia, the Canary Islands, and Galicia. [redacted]

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France

Press reports indicate that the votes in yesterday's runoff contests in the two-stage French department-level elections approximated those of the preceding Sunday, the parties of the left gaining the support of around 55 percent of the electorate. They scored a net gain of about 160 seats and will control a majority of the 95 departmental councils. The center-right coalition that governs at the national level, while apparently running again at around 44 percent of the overall vote, reportedly may now have added problems stemming from bickering over the failure to agree on a single candidate in Strasbourg and elsewhere. [REDACTED]

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Jordan

Amman radio announced last night that King Hussein will visit Syria and Iraq today and tomorrow on his tour of those Arab states opposed to the Egyptian-Israeli peace treaty. He went to Saudi Arabia last week. [REDACTED]

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